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## **Form ADV Part 2A**

### **Wealthfront Advisers Client Brochure**

**October 26, 2020**

#### **Item 1 Cover Page**

This brochure (“Brochure”) provides information about the qualifications and business practices of Wealthfront Advisers LLC (“Wealthfront Advisers”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”). Registration does not imply a certain level of skill or training but only indicates that Wealthfront Advisers has registered its business with state and federal regulatory authorities, including the SEC (our SEC number is 801-69766). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact us at [844-995-8437](tel:844-995-8437) or [support@wealthfront.com](mailto:support@wealthfront.com). Additional information about Wealthfront Advisers is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on Wealthfront Advisers’ website, [www.wealthfront.com](http://www.wealthfront.com) (the “Site”).

## **Item 2 Material Changes**

Since the last updating amendment to Wealthfront Advisers' Form ADV Part 2 brochure on October 29, 2019, we updated this Brochure to reflect the offering of our Autopilot service.

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## **Item 4 Advisory Business**

### **A. General Description of the Company**

Wealthfront Advisers is an automated investment adviser registered with the SEC. Wealthfront Advisers provides clients with software-based investment advisory and portfolio management services through the Wealthfront Advisers Program (See Wealthfront Advisers Program Brochure attached). This Program, launched in December 2011, is made available via brokerage accounts that all clients open at Wealthfront Brokerage LLC (“Wealthfront Brokerage”), a member of Financial Industry Regulatory Authority (“FINRA”). Wealthfront Advisers became the successor investment adviser to Wealthfront Inc. effective August 1, 2018. On the same date, Wealthfront Inc. changed its name to Wealthfront Corporation. Software-based financial planning tools and services (as described further in Item 4.B below) are provided by Wealthfront Software LLC (“Wealthfront Software”). Since February 2019, Wealthfront Brokerage has offered a cash account to Clients, where Wealthfront Brokerage conveys uninvested cash account funds to depository institutions that accept and maintain such deposits (“partner banks”). Neither Wealthfront Brokerage nor its affiliates are a bank. The cash balance in a Client’s cash account is swept to one or more partner banks, where it earns a variable rate of interest and is eligible for FDIC insurance while such cash balance awaits investments. FDIC insurance is not provided, and interest is not earned, until the funds arrive at the partner banks. In addition, since Wealthfront Advisers, Wealthfront Brokerage and Wealthfront Software are wholly owned subsidiaries of Wealthfront Corporation, which is a privately held company headquartered in Palo Alto, CA. As of October 20, 2020, Wealthfront Corporation oversaw, through its wholly owned subsidiaries Wealthfront Advisers and Wealthfront Brokerage, approximately \$20.10 billion in client assets. Additional information about Wealthfront Advisers’ products, structure and directors is provided on Part 1 of Wealthfront Advisers’ Form ADV which is available online at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or at [www.wealthfront.com](http://www.wealthfront.com). We encourage visiting our website [www.wealthfront.com](http://www.wealthfront.com) for additional information.

### **B. Summary of Investment Advisory Services**

Wealthfront Advisers offers an automated investment advisory service that makes it possible for anyone who enters into a Wealthfront Advisers Advisory Client Agreement (the “Advisory Client Agreement”), to access state-of-the-art investment advisory and portfolio management services. As provided in the Advisory Client Agreement, advisory clients (“Clients”) grant Wealthfront Advisers discretionary authority to manage Client assets in accounts (“Client Accounts” or “Accounts”) opened and maintained at Wealthfront Brokerage (and in the case of the 529 college savings plan, the sponsoring state trust fund account) pursuant to the Wealthfront Brokerage Customer Brokerage and Custody Agreement (the “Brokerage Agreement”). Wealthfront Advisers’ investment objective is to seek maximum long-term, risk-adjusted, after-tax, net of fee returns.

### **Taxable Accounts and Individual Retirement Accounts (“IRAs”)**

Each individualized taxable or IRA account is designed to be consistent with Clients’ individual risk tolerances. Wealthfront Advisers creates an investment plan and manages a Client’s

portfolio by seeking to identify: 1) the optimal asset classes in which to invest, 2) the most efficient exchange traded funds (“ETFs”) or other investments to represent each of those asset classes, 3) the ideal mix of asset classes based on the Client’s specific risk tolerance, and 4) the most appropriate time to rebalance the Client’s portfolio to maintain intended risk tolerance and optimal return for the Client’s risk level.

For taxable accounts, Wealthfront Advisers offers tax-loss harvesting (“TLH”) strategies. TLH is a technique designed to help lower your taxes while maintaining the expected risk and return profile of your portfolio. TLH harvests previously unrecognized investment losses to offset taxes due on your other gains and income by selling a security at a loss to accelerate the realization of capital loss and investing the proceeds in a security with closely correlated risk and return characteristics. The realized loss can be applied to lower your tax liability and the tax savings can be reinvested to grow the value of your portfolio. Wealthfront Advisers’ basic TLH strategy, which is solely applied to ETFs, is available for all Clients. Advanced versions of TLH are available for Clients with larger account sizes and are applied to individual stocks that comprise the domestic equity allocation in their taxable account portfolios.

### **College Savings Accounts**

Wealthfront Advisers also serves as the Client’s automated investment adviser for 529 college savings accounts (which consist of an account with the sponsoring state trust fund and a related brokerage account at Wealthfront Brokerage). Once again, Wealthfront Advisers’ investment objective is to seek maximum, long-term, risk-adjusted, after-tax, net of fee returns. Based on the Client’s individual risk tolerances, Wealthfront Advisers constructs an individual portfolio for the Client using up to nine of the 529 plan’s separate municipal fund securities (each a “MFS”), of which each MFS contains a single underlying ETF. Wealthfront Advisers designs the Client’s individual portfolio to provide a diversified asset allocation. Using the Client’s risk score, Wealthfront Advisers assigns the Client’s individual portfolio to one out of 20 glide paths, each of which determines how the Client’s individual portfolio’s allocations of designated portfolios will change over time. Each glide path gradually shifts the asset allocations of the MFSs in the Client’s individual portfolio to progressively decreasing levels of expected risk as the beneficiary’s expected matriculation date approaches. The Client’s starting point along the specific glide path is determined by the beneficiary’s expected time to matriculation.

### **Autopilot**

In addition to investment advisory and portfolio management services, Wealthfront Advisers offers a service called Autopilot to Clients, free of charge. Clients may opt into this service and can stop or restart its use at any time at no cost to them. Autopilot monitors a Client’s checking account or Wealthfront Cash Account for excess cash over the maximum balance set by the Client. If Autopilot detects that the monitored account has exceeded the Client’s prescribed maximum balance by at least \$100, Autopilot will schedule a transfer of the excess cash from the monitored account to the Client’s Wealthfront account of choice. The Client will receive an email notification before each transfer and will have 24 hours to cancel the transfer before it takes place.

### **Financial Planning Service Through Software**

In addition to investment advisory and portfolio management services, Wealthfront Advisers, through its affiliate Wealthfront Software, also provides certain software-based financial planning tools and services (the “Financial Planning Service”) to its Clients. The Financial Planning Service is a product offered by Wealthfront Software and is made available to Wealthfront Advisers’ Clients free of charge through a contractual arrangement between Wealthfront Advisers and Wealthfront Software. The Financial Planning Service allows Clients to explore potential future financial scenarios, including retirement, college funding and purchasing a home, and provide recommendations for reaching their financial goals. The Financial Planning Service allows Clients to link their external financial accounts, including bank, brokerage, retirement, college savings, loan and credit card accounts and mortgages, in order to eliminate the need for the traditional financial planner interview that is usually required to acquire the necessary inputs to build a financial plan.

Wealthfront Advisers and Wealthfront Software do not represent that the Financial Planning Service is meant to replace a comprehensive evaluation of a Client's entire financial plan considering all the Client's circumstances. Should a Client choose to implement any recommendation made by the Financial Planning Service, the Client should consult with their tax advisor regarding the Client's personal circumstances. Implementation of a financial plan recommendation is entirely at the Client's discretion, and currently information Clients enter into the financial planning model, or obtained by linking other accounts, does not automatically change their risk scores. Clients can only change their risk scores by changing their personal financial information through the Site. While the data from third parties used in the financial models of the Financial Planning Service is believed to be reliable, Wealthfront Advisers or Wealthfront Software cannot ensure the accuracy or completeness of data provided by clients or third parties.

### **C. Tailored Services and Investment Restrictions**

Wealthfront Advisers tailors its software-based investment advisory service to the individual needs of each of its Clients, in accordance with certain investment options designated by Clients, and subject to certain account limitations that prospective investors should consider, as described further below and in Item 7. Wealthfront Advisers uses its software, which is based on academic behavioral economics research, to determine an investor's risk tolerance. Wealthfront Advisers asks each prospective Client a series of questions to evaluate both the individual's objective capacity to take risk and subjective willingness to take risk. We ask subjective risk questions to determine both the level of risk an individual is willing to take and the consistency among the answers. For example, if an individual is willing to take a lot of risk in one case and very little in another, then the individual is deemed inconsistent and is therefore assigned a lower risk tolerance score than the simple weighted average of their answers. We ask objective questions to estimate with as few questions as possible whether the individual is likely to have enough money saved at retirement to afford their likely spending needs. The greater the excess income, the more risk the Client is able to take. As noted in Item 7.3, a Client may not specify investments in which that Client Account may not invest except to a limited degree in connection with certain advanced TLH strategies with respect to a qualifying Client's investments in single U.S. stocks.

### **D. Wealthfront Advisers Program**

Client assets at Wealthfront Advisers are managed as part of the Wealthfront Advisers Program (See Wealthfront Advisers Program Brochure attached). A Wealthfront Advisers Program account for Clients (technically known as a “wrap account”) is a professionally managed investment plan in which all expenses, including brokerage commissions (if any), management fees, and administrative costs, are “wrapped” into a single charge. The Wealthfront Advisers Program provides Clients with investment plans, portfolio management, and necessary brokerage services for one comprehensive fee based on a percentage of the Clients’ respective account assets.

Wealthfront Advisers may buy or sell securities consistent with a Client’s investment plan designed to seek an investment return suitable for the goals and risk profile of each distinct Client Account. Wealthfront Advisers determines an appropriate course of action by performing a review of each Client’s individual account and suitability parameters. This review may include type of account, goals, overall financial condition, income, assets, risk tolerance, and other factors unique to the individual Client’s situation. Wealthfront Advisers manages each Client Account on an individualized basis.

In order to implement Wealthfront Advisers’ continuous investment advice, Wealthfront Advisers provides investment advisory and portfolio management services under the Wealthfront Advisers Program only on a fully discretionary basis.

#### **E. Discretionary and Nondiscretionary Assets**

Wealthfront Advisers manages approximately \$15,846,651,340 in client assets through our software-based investment advisory service on a discretionary basis. This total is calculated using the closing U.S. market prices from October 20, 2020. Wealthfront Advisers does not manage any Client assets on a non-discretionary basis.

### **Item 5 Fees and Compensation**

#### **A. Advisory Fees**

Wealthfront Advisers is compensated for its advisory services by charging an annual fee of 0.25% on the net market value of a Client’s Account. Wealthfront Advisers reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined solely by Wealthfront Advisers. In addition, Wealthfront Advisers may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients. For Clients who had opened accounts prior to April 1, 2018, Wealthfront Advisers waived its investment advisory fees for the first \$10,000 of assets in any Wealthfront Advisers investment advisory account(s). However, this benefit is no longer available for new Clients who opened their initial account on or after April 1, 2018.

#### **Autopilot**

Wealthfront Advisers offers the free service Autopilot as described above in Item 4.

## **Financial Planning Service**

Through its affiliate Wealthfront Software, Wealthfront Advisers offers the Financial Planning Service, as described above in Item 4, to all Clients free of charge.

## **Taxable Accounts and IRAs**

Wealthfront Advisers' software-based investment advisory service charges an annualized fee of 0.25% on a Client's assets under management. In some cases, Clients can have a portion of their assets managed for free. Annual fees are charged on a monthly basis as explained below.

Wealthfront Advisers' fees are not charged in advance and are calculated on a continuous basis and deducted from Clients' Accounts each month as follows: Wealthfront Advisers calculates a daily advisory fee, which is equal to the fee rate multiplied by the net market value of the Client's Account as of the close of trading on the New York Stock Exchange ("NYSE") (herein, "close of markets") on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). The advisory fee for a calendar month is equal to the total of the daily fees calculated during that month (less any deductions or fee waivers) and is deducted from Client Accounts no later than the tenth business day of the following month.

## **College Savings Accounts**

Wealthfront Advisers also charges an annual fee of 0.25% on the net market value of a college savings account for its investment advisory services in connection with the account. Wealthfront Advisers waives its investment advisory fees on the first \$25,000 it manages for Nevada residents who open a college savings account, and this fee waiver applies to the aggregate of all of the Nevada resident's Wealthfront Advisers account assets. This waiver continues to be available to Nevada residents who opened a college savings account after April 1, 2018.

This advisory fee is separate from the fees and expenses of the MFSs in which a Client invests in the Client's colleges savings account, which include the fees and expenses of the ETFs underlying such securities, the fees of the college savings plan recordkeeper and the fees of the state trust that issues the MFSs ("Plan Administration Fees"). Plan Administration Fees may change without prior notice.

## **B. Other Account Fees**

In addition to the advisory fees, Clients may also pay other fees or expenses to third parties, as well as to an affiliate of Wealthfront Advisers. The issuer of some of the securities or products we purchase for Clients, such as ETFs, may charge product fees that affect Clients. Wealthfront Advisers does not charge these ETF fees to Clients, nor does it benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF



expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront Advisers discloses each ETF's current information, including expenses, on the Site. Investments in Wealthfront's Risk Parity Fund (the "Risk Parity Fund") are subject to an additional management / operational expense. The Risk Parity Fund is managed by Wealthfront Strategies LLC, which is an affiliate of Wealthfront Advisers. Additional information regarding the Risk Parity Fund and related expenses can be found on the Site. In addition, Clients who use the Portfolio Line of Credit offered by Wealthfront Brokerage to obtain a loan secured by the assets of their taxable Accounts will be charged interest on the outstanding balance.

## **Item 6 Performance-Based Fees and Side-by-Side Management**

Wealthfront Advisers does not charge performance-based fees. Clients are only charged an annual advisory fee as disclosed in Item 5 above.

## **Item 7 Types of Clients**

The minimum amount required to open and maintain an account with Wealthfront Advisers is \$500. As a result of the automation associated with offering its services online, Wealthfront Advisers makes it possible for retail investors, as well as retirement accounts and trusts, to access its service with much lower account minimums than normally available in the industry. Clients have access to their Accounts through the Site. Additional requirements for opening an Account with Wealthfront Advisers are described in Item 4 above.

At any time, a Client may terminate an Account, withdraw all or part of an Account (provided the Account balance does not fall below \$500 because of the withdrawal), or update their investment profile (i.e. risk score), which may initiate an adjustment in the Account's holdings. In that case, unless otherwise directed by the Client, Wealthfront Advisers will sell the securities in the Client Account (or portion of the Account, in the case of a partial withdrawal or update) at market prices at or around the time of the termination, withdrawal, or update. See Item 16 for a description of Wealthfront Advisers' discretionary investment authority, including the timing of Wealthfront Advisers' placement of Client trade orders. While Wealthfront Advisers seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests, including without limitation requests in connection with terminations, and other reasonable Client requests in a timely and reasonable manner, Wealthfront Advisers does not represent or guarantee that Wealthfront Advisers will respond to any such Client actions or requests immediately or in accordance with a set time schedule.

Investors evaluating Wealthfront Advisers' software-based investment advisory service should be aware that Wealthfront Advisers' relationship with Clients is likely to be different from the "traditional" investment advisory relationship in several aspects:

1. Wealthfront Advisers is a software-based investment adviser which means each Client must acknowledge their ability and willingness to conduct their relationship with Wealthfront Advisers on an electronic basis. Under the terms of the Advisory Client Agreement and the Brokerage Agreement, each Client agrees to receive all Account information and Account documents (including this Brochure and the Wealthfront

Advisers Program Brochure), and any updates or changes to same, through their access to the Site and Wealthfront Advisers' electronic communications. Unless noted otherwise on the Site or within this Brochure, Wealthfront Advisers' investment advisory service, Wealthfront Brokerage's brokerage services, the signature for the Advisory Client Agreement and the Brokerage Agreement, and all documentation related to the advisory services are managed electronically. Wealthfront Advisers does make individual representatives available to discuss servicing matters with Clients.

2. To provide its investment advisory services and tailor its investment decisions to each Client's specific needs, Wealthfront Advisers collects information from each Client, including specific information about their investing profile such as financial situation, investment experience, and investment objectives. Wealthfront Advisers maintains this information in strict confidence subject to its Privacy Policy, which is provided on the Site. When customizing its investment solutions, Wealthfront Advisers relies upon the information received from a Client. Although Wealthfront Advisers contacts its Clients periodically as described further in Item 13 below, a Client must promptly notify Wealthfront Advisers of any change in their financial situation or investment objectives that might require a review or revision of their portfolio.
3. The software-based investment advisory service includes preselected ETFs for each asset class within the plan recommended to a Client. Wealthfront Advisers does not allow Clients to select their own ETFs because each ETF and asset class is considered to be part of the overall investment plan. However, Wealthfront Advisers does allow Clients to restrict Wealthfront Advisers from investing in the stock of a public company that employs the Client. The Wealthfront Risk Parity Fund may also be included in the plan for taxable Client Accounts with a minimum account size of \$100,000 if the Client so chooses.
4. Clients may not place orders to purchase or sell securities on a self-directed basis.

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Modern Portfolio Theory ("MPT")**

For its software-based investment advisory and portfolio management service, Wealthfront Advisers provides Clients with investment advice that is based on MPT. MPT attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset classes rather than selecting individual securities. Historically, rigorous MPT-based financial advice has been available primarily through certain high-end financial advisors. Wealthfront Advisers' goal is to enable anyone with at least \$500 to access the benefits of MPT.

Prior to the launch of the Wealthfront Advisers software-based investment advisory service, it was not practical to offer rigorous and complete MPT to everyone because delivering a complete solution was too complex. Specifically, the number of calculations required to identify an optimized asset allocation, the ideal securities to represent each asset class, and an individual's

true risk tolerance are beyond the scope of free, web-based tools. The job becomes even more difficult when considering the importance of periodically rebalancing a portfolio to maintain a desired risk level.

To employ MPT properly, one must start with an accurate determination of an individual's objective and subjective tolerance for risk. Achieving accuracy requires sophisticated software applied to more detailed questions than are typically asked by advisers. Based on this risk analysis, Wealthfront Advisers seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance. Wealthfront Advisers uses Mean Variance Optimization to rigorously evaluate every possible combination of the following twelve asset classes: US equities, foreign developed markets equities, emerging markets equities, dividend growth equities, real estate, natural resources, treasury inflation protected securities (TIPS), municipal bonds, corporate bonds, emerging markets bonds, risk parity and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for any given standard deviation of a portfolio's returns. Wealthfront Advisers however, must limit the number of assets classes for very small portfolios. Further, the risk parity asset class is only available to taxable Client Accounts with a minimum account size of \$100,000.

Wealthfront Advisers periodically reviews the entire population of more than 1,000 ETFs to identify the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time. Finally, we select ETFs that have conservative and shareholder-friendly securities lending policies.

In addition to choosing what we believe to be the best ETFs at the time, we explain in whitepapers on our website why we chose each one. We provide a detailed analysis of how the selected ETF stacked up against the second and third best choice for each asset class on the dimensions described in the paragraph above.

Wealthfront Advisers continuously monitors our Clients' portfolios and periodically rebalances them back to the Clients' target mix in an effort to optimize returns for the intended level of risk. Wealthfront Advisers may consider tax implications and the volatility associated with each of the chosen asset classes when deciding when and how to rebalance, however no assurance can be made by Wealthfront Advisers that Clients will not incur capital gains, and in certain instances significant capital gains, when Client portfolios are rebalanced periodically. Wealthfront Advisers assumes no responsibility to its Clients for any tax consequences of any transaction, including any capital gains that may result from the rebalancing of Client Accounts.

## **B. Tax-Loss Harvesting ("TLH")**

TLH is a technique designed to help lower your taxes while maintaining the expected risk and return profile of your portfolio. It harvests previously unrecognized investment losses to offset taxes due on your other gains and income by selling a security at a loss to accelerate the realization of capital loss and investing the proceeds in a security with closely correlated risk and return characteristics. The realized loss can be applied to lower your tax liability and the tax savings can be reinvested to grow the value of your portfolio. Wealthfront Advisers' basic TLH strategy, which is solely applied to ETFs, is available for all Clients. Advanced versions of TLH are available for Clients with larger account sizes and are generally applied to individual stocks that comprise the domestic equity allocation in their taxable account portfolios.

### **C. Long Term, Buy and Hold Investment Philosophy**

Wealthfront Advisers adheres to a long-term, "buy-and-hold" investment philosophy. While Wealthfront Advisers reserves the right to act otherwise if it feels that it is in the best interests of its Clients, Wealthfront Advisers does not try to time the market and in general, Wealthfront Advisers intentionally does not react to market movements in managing Client Accounts other than through rebalancing and tax-loss harvesting. Wealthfront Advisers believes that numerous academic and industry studies show that *"short-term fluctuations in market, which loom so large to investors, have little to do with the long-term accumulation of wealth."* J. Siegel, Stocks for the Long Run (1977).

### **D. Risk Considerations**

Wealthfront Advisers cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. **Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.**

When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining Wealthfront Advisers' services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

**Market Risk** – The price of any security or the value of an entire asset class can decline for a variety of reasons outside of Wealthfront Advisers' control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. If a Client has a high allocation in a particular asset class, it may negatively affect overall performance to the extent that the asset class underperforms relative to other market assets. Conversely, a low allocation to a particular asset class that outperforms other asset classes in a particular period will cause that Client Account to underperform relative to the overall market.

**Advisory Risk** – There is no guarantee that Wealthfront Advisers' judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results.

It is possible that Clients or Wealthfront Advisers itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Wealthfront Advisers' software-based investment advisory service. Wealthfront Advisers and its representatives are not responsible to any Client for losses unless caused by Wealthfront Advisers' breach of its fiduciary duty.

**Software Risk** – Wealthfront Advisers delivers its investment advisory services entirely through software. Consequently, Wealthfront Advisers rigorously designs, develops and tests its software extensively before putting such software into production with actual Client Accounts and assets and periodically monitors the behaviors of such software after its deployment. Notwithstanding this rigorous design, development, testing and monitoring, it is possible that such software may not always perform exactly as intended or as disclosed on the Site, mobile app, blogs or other Wealthfront Advisers disclosure documents, especially in certain combinations of unusual circumstances. For example, there may be occasions where a number of Client Accounts may not experience TLH (even if TLH had been activated for such accounts) or rebalancing back to the Client's target asset allocation for extended periods of time, due to certain errors in the deployment of the software. Wealthfront Advisers continuously strives to monitor, detect and correct any software that does not perform as expected or as disclosed.

**Volatility and Correlation Risk** – Wealthfront Advisers' Security selection process is based in part on a careful evaluation of past price performance and volatility to evaluate future probabilities. It is possible that different or unrelated asset classes may exhibit similar price changes in similar directions which may adversely affect a Client's account and may become more acute in times of market upheaval or high volatility. **Past performance is no guarantee of future results, and any historical returns, expected returns, or probability projections may not reflect actual future performance.**

**Liquidity and Valuation Risk** – High volatility and/or the lack of deep and active liquid markets for a security may prevent a Client from selling their securities at all, or at an advantageous time or price because Wealthfront Advisers' executing broker-dealer may have difficulty finding a buyer and may be forced to sell at a significant discount to market value. Some securities (including ETFs) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage their portfolios. While Wealthfront Advisers values the securities held in Client Accounts based on reasonably available exchange traded security data, Wealthfront Advisers may from time to time receive or use inaccurate data, which could adversely affect security valuations, transaction size for purchases or sales, and/or the resulting advisory fees paid by a Client to Wealthfront Advisers.

**Credit Risk** – Wealthfront Advisers cannot control, and Clients are exposed to the risk that, financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any broker-dealer, notwithstanding asset segregation and insurance requirements that are beneficial to broker-dealer clients generally. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of Client securities. Finally, any issuer of securities may

experience a credit event that could impair or erase the value of the issuer's securities held by a Client. Wealthfront Advisers seeks to limit credit risk by generally adhering to the purchase of ETFs, which are subject to regulatory limits on asset segregation and leverage such that fund shareholders are given liquidation priority versus the fund issuer; however, certain funds and products, which Wealthfront Advisers generally does not invest in, may involve higher issuer credit risk because they are not structured as a registered fund.

**Legislative and Tax Risk** - Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment adviser / financial advisor or securities trading regulation; change in the U.S. government's guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization and/or tax reporting obligations (particularly for ETF securities dealing in natural resources). Wealthfront Advisers does not engage in tax planning, and in certain circumstances a Client may incur taxable income on their investments without a cash distribution to pay the tax due.

**Tax-Loss Harvesting Risk** - Clients who activate our tax-loss harvesting service are alerted to the following risks:

- **Clients should confer with their personal tax advisor regarding the tax consequences of investing with Wealthfront Advisers and engaging in the tax-loss harvesting strategy, based on their particular circumstances.** Clients and their personal tax advisors are responsible for how the transactions in the Client's account are reported to the Internal Revenue Service ("IRS") or any other taxing authority. Wealthfront Advisers assumes no responsibility to you for the tax consequences of any transaction, including any capital gains and/or wash sales that may result from the tax-loss harvesting strategy.
- Wealthfront Advisers' tax-loss harvesting strategy is not intended as tax advice, and Wealthfront Advisers does not represent in any manner that the tax consequences described will be obtained or that Wealthfront Advisers' investment strategy will result in any particular tax consequence. The tax consequences of this strategy and other Wealthfront Advisers strategies are complex and may be subject to challenge by the IRS. This strategy was not developed to be used by, and it cannot be used by, any investor to avoid penalties or interest.
- When Wealthfront Advisers replaces investments with "similar" investments as part of the tax-loss harvesting strategy, it is a reference to investments that are expected, but are not guaranteed, to perform similarly and that might lower a Client's tax bill while maintaining a similar expected risk and return on the Client's portfolio. **Expected returns and risk characteristics are no guarantee of actual performance.**
- A Client must notify Wealthfront Advisers of specific stocks in which the Client is prohibited from investing. If a Client instructs Wealthfront Advisers not to purchase certain stocks, Wealthfront Advisers will select an alternate stock to purchase on the Client's behalf or if Wealthfront Advisers deems no other stock as appropriate, not invest in an alternate stock. The Client shall notify Wealthfront Advisers immediately if you

consider any investments recommended or made for the Account to violate such restrictions.

- The performance of the new securities purchased through the tax-loss harvesting service may be better or worse than the performance of the securities that are sold for tax-loss harvesting purposes.
- The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the Client will depend on the Client's entire tax and investment profile, including purchases and dispositions in a Client's (or Client's spouse's) accounts outside of Wealthfront Advisers and type of investments (e.g., taxable or nontaxable) or holding period (e.g., short-term or long-term). The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws, e.g., if there are insufficient realized gains in the tax period, the use of harvested losses may be limited to a \$3,000 deduction against ordinary income and distributions. Losses harvested through the strategy that are not utilized in the tax period when recognized (e.g., because of insufficient capital gains and/or significant capital loss carryforwards), generally may be carried forward to offset future capital gains, if any.
- Be aware that if the Client and/or the Client's spouse have other taxable or non-taxable investment accounts, and the Client holds in those accounts any of the securities (including options contracts) held in the Client's account at Wealthfront Advisers, the Client cannot trade any of those securities 30 days before or after Wealthfront Advisers trades those same securities as part of the tax-loss harvesting strategy to avoid possible wash sales and, as a result, a nullification of any tax benefits of the strategy. For more information on the wash sale rule, please read [IRS Publication 550](#).
- Wealthfront Advisers' tax-loss harvesting service is designed to avoid creating "wash sales" in Clients' accounts with Wealthfront Advisers. Clients, however, are responsible for monitoring their accounts outside of Wealthfront Advisers to ensure that transactions in the same security or a substantially similar security do not create a wash sale. A wash sale occurs when a taxpayer sells a security at a loss and then purchases the same security or a substantially similar security over a period of 61 days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. If a wash sale occurs, the IRS may disallow or defer the loss for current tax reporting purposes. Wash sales can occur even if the securities are sold and then bought in different accounts. Therefore Wealthfront Advisers may lack visibility to certain wash sales, should they occur as a result of transactions in external or unlinked accounts. Under those circumstances, Wealthfront Advisers may not be able to provide notice of such wash sale in advance of the Client's receipt of the IRS Form 1099.
- Except as set forth below, Wealthfront Advisers will monitor only a Client's accounts at Wealthfront Advisers to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside of accounts at Wealthfront Advisers may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the Client in the most efficient manner.

- Under certain limited circumstances, there is a chance that Wealthfront Advisers trading attributed to tax-loss harvesting may create capital gains and/or wash sales. In addition, tax-loss harvesting strategies may produce losses, which may not be offset by sufficient gains in the account.
- In order to avoid wash sales due to one or more transactions in the Client's taxable or IRA Accounts, from time-to-time, a Client's IRA Account might invest in a so-called "secondary" ETF (as identified in Wealthfront Advisers' TLH white paper) rather than a so-called "primary" ETF identified in such white paper or in the Client's plan.
- Not all the losses may be used to offset gains in the year they were recognized due to wash sales. Thus, wash sales can diminish the effectiveness of tax-loss harvesting by deferring to a future year a tax loss that could have been used to offset income or capital gains in the current year.

**Potentially High Levels of Trading Risk** - Certain situations, such as the simultaneous receipt of a high volume of Client deposits or withdrawal requests, can lead Wealthfront Advisers to engage in high levels of trading. High levels of trading could result in (a) bid--ask spread expense; (b) trade executions that may occur at prices beyond the bid--ask spread (if quantity demanded exceeds quantity available at the bid or ask); (c) trading that may adversely move prices, such that subsequent transactions occur at worse prices; (d) trading that may disqualify some dividends from qualified dividend treatment; unfulfilled orders or portfolio drift, in the event that markets are disorderly or trading halts altogether; and (f) unforeseen trading errors.

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**ETF Risks, including Net Asset Valuations and Tracking Error** - ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned



by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

Clients should be aware that to the extent they invest in ETF securities they will pay two levels of advisory compensation – advisory fees charged by Wealthfront Advisers plus any management fees charged by the issuer of the ETF. This scenario may cause a higher advisory cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of the fund may include ETF management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront Advisers discloses each ETF's current information, including expenses, on the Site. ETF tracking error and expenses may vary.

**Inflation, Currency, and Interest Rate Risks** - Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor's future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of the U.S. dollar-denominated assets primarily managed by Wealthfront Advisers may be affected by the risk that currency devaluations affect Client purchasing power.

**College Savings Account Risks** - College Savings Accounts are subject to various risks, including but not limited to:

*Special Nature of Plan Interests* - The Client and the Client's beneficiary do not have access or rights to any assets of the state sponsoring our 529 Plan or any assets of the state trust of the Section 529 college savings plan (a "Plan") other than the assets credited to the Client's account for that beneficiary. The college savings account is an investment vehicle. College savings accounts are subject to certain risks including: (i) the possibility that the Client may lose money over short or even long periods of time; (ii) the risk of changes in applicable federal and state tax laws and regulations; (iii) the risk of Plan changes including changes in fees and expenses; and (iv) the risk that contributions to the college savings account may adversely affect the eligibility of the beneficiary or the Client for financial aid or other benefits. Some MFSs in a Client's college savings account carry more and/or different risks than others. Clients should weigh such risks with the understanding that they could arise at any time during the life of the Client's account.

*Municipal Fund Securities* - When the Client contributes to the college savings account, the Client's money will be invested in MFSs. An investment in the Client's college savings account is not a bank deposit. None of the Client's account, the principal the

Client invests, nor any investment return is insured or guaranteed by (i) any state or any state agencies, instrumentalities or funds, (ii) any officer, official, staff member of any state, (iii) any Plan or any program manager of any such Plan, (iv) any board of any state trust issuing MFSs for a Plan (a “Board”), (v) any such state trust (as “State Trust”), (vi) Wealthfront Advisers, (vii) each of their respective affiliates, officials, officers, directors, employees and representatives, (viii) the federal government, (ix) the Federal Deposit Insurance Corporation (“FDIC”), or (x) any other governmental agency. Investment returns will vary depending upon the performance of the designated portfolios in the Client’s account. A Client could lose all or a portion of the Client’s investment.\

*Relatively Short Investment Time Horizon* - Relative to investing for retirement, the holding period for college savings investors is very short (e.g., 10 years versus 60 years). Also, the need for liquidity during the withdrawal phase (to pay for qualified higher education expenses) generally is very important. Clients should strongly consider the level of risk they wish to assume when completing the risk questionnaire upon account opening.

*Limited Investment Direction* - Clients may not direct the underlying investments in their college savings account. The ongoing money management is the responsibility of Wealthfront Advisers. The only manner in which Clients can affect the money management is to change their risk score, which is limited to two times per year, or upon the change of the beneficiary. Once the permitted two per calendar year risk score changes are made in the Client’s account, a subsequent risk score change in the Client’s account within the same calendar year will not be processed. The choice of the underlying investments of the MFSs is subject to the approval of the Board. Automatic investment exchanges that occur as the Client’s assets move through the glide path do not count towards the Client’s twice per calendar year investment exchange limit.

*Liquidity Risk* - Investments in a Plan are considered less liquid than other types of investments (e.g., investments in mutual fund shares) because the circumstances in which a Client may withdraw money from a Plan account without a penalty or adverse tax consequences are significantly more limited.

*Potential Changes to the Plan* – Boards generally reserve the right, in their sole discretion, to discontinue the Plan or to change any aspect of the Plan. For example, the Board may change the Plan’s fees and expenses; add, subtract, or merge the MFSs; close a MFS to new investors; or change the program manager or the underlying investment(s) of a MFS. Depending on the nature of the change, a Client may be required to, or prohibited from, participating in the change with respect to accounts established before the change. A particular program manager may not necessarily continue as the Plan’s program manager, and Wealthfront Advisers may not necessarily continue as investment adviser and distributor to a Plan (although Wealthfront Advisers will continue as the Client’s investment adviser until either Wealthfront Advisers or the Client terminates that investment advisory relationship).

Changes to a Plan may or may not be beneficial to Clients. The Board may terminate the

Plan by giving written notice to the Client, but even if the Board terminates the Plan, the Client and the Client's beneficiary's rights to the Client's account assets will be unaffected. An MFS may be temporarily uninvested during a transition from one investment underlying an MFS to another underlying investment. The transaction costs associated with any liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the MFS which ultimately may impact the individual portfolios holding that MFS.

*Status of Federal and State Law and Regulations Governing a Plan* - Federal and state law and regulations governing the administration of Plans could change in the future. In addition, federal and state laws on related matters, such as the funding of higher education expenses, treatment of financial aid, and tax matters are subject to frequent change. It is unknown what effect these kinds of changes could have on a college savings account. Clients should also consider the potential impact of any other state laws on their account. Clients should consult their tax advisor for more information.

*Eligibility for Financial Aid* - The treatment of college savings account assets may have an adverse effect on the beneficiary's eligibility to receive assistance under various federal, state, and institutional financial aid programs.

*No Guarantee That Investments Will Cover Qualified Higher Education Expenses; Inflation and Qualified Higher Education Expenses* - There is no guarantee that the money in a Client's college savings account will be sufficient to cover all of a beneficiary's qualified higher education expenses, even if contributions are made in the maximum allowable amount for the beneficiary. The future rate of increase in qualified higher education expenses is uncertain and could exceed the rate of investment return earned by a Plan account over any relevant period of time.

Investors in any Plan should read the Plan's offering documents and any related participation agreement carefully before investing or sending money.

**Portfolio Line of Credit** - Qualified clients who choose to use Wealthfront Brokerage's Portfolio Line of Credit are alerted to the following risks:

- Portfolio Line of Credit is a margin loan product offered by Wealthfront Brokerage exclusively to Clients of Wealthfront Advisers with taxable account balances in excess of \$25,000. Clients should review the risks listed below and in Wealthfront Brokerage's [Margin Handbook](#), and consider them before borrowing. For the purposes of this document, Client Accounts utilizing the Portfolio Line of Credit may be referred to as "margin accounts."
- Clients who utilize margin loans can lose more funds than deposited in their margin accounts. In addition, a decline in the value of the securities in margin accounts may require such Clients to provide Wealthfront Brokerage with additional funds to avoid the forced sale of securities or other securities or assets in their margin accounts. This is called a "margin call."

- Wealthfront Brokerage can issue a margin call and force the sale of securities in Client margin accounts if the equity in a Client margin account falls below the minimum requirement described in our [Margin Handbook](#). Wealthfront Brokerage can sell the securities in any of the Client's margin accounts held with Wealthfront Brokerage to cover the margin deficiency. Clients also will be responsible for any shortfall in the margin account after such a sale.
- Wealthfront Brokerage notifies Clients whose portfolio balances approach our minimum margin requirement well before a margin call is likely to happen even though such notice is not strictly required. Unless such Clients pay back their loan or a portion of it, Wealthfront Brokerage can sell Client securities in margin accounts without further contacting the Client if the margin account falls below our minimum margin requirement. Even if Wealthfront Brokerage has contacted a Client and provided a specific date by which the Client can meet a margin call, Wealthfront Brokerage can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the Client.
- In the event it is necessary to sell securities to meet minimum margin requirements, Wealthfront Advisers will automatically liquidate securities to cover the minimum margin requirements while also maintaining appropriate asset allocations in the Client's portfolio. Clients are not entitled to choose which securities in their account(s) are liquidated or sold to meet a margin call.
- Wealthfront Brokerage can increase its minimum margin requirements at any time and is not required to provide advance written notice to Clients. These changes in Wealthfront Brokerage's policy often take effect immediately and may result in the issuance of a maintenance margin call. A Client failure to satisfy the call may cause Wealthfront Brokerage to liquidate or sell securities in Client margin accounts.
- Clients are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to a Client under certain conditions, a Client does not have a right to the extension.

## **Item 9 Disciplinary Information**

On December 21, 2018, Wealthfront Advisers reached a settlement with the Securities and Exchange Commission. The settlement order found that Wealthfront Advisers improperly retweeted certain clients' positive tweets from its corporate account and had made compensation to some bloggers for client referrals without proper disclosures. Additionally, the settlement order found that Wealthfront Advisers did not have proper disclosures in its TLH whitepaper concerning monitoring for any and all wash sales that could occur in client accounts. A wash sale prevents the tax benefit of having sold the asset to realize a loss. Thus, a wash sale can diminish the effectiveness of TLH by deferring to a future year a tax loss that could have been used to offset income or capital gains in the current year. In Wealthfront's TLH program, wash sales could occur, or were permitted, in certain circumstances relating to the management of a client account such as rebalancing a client portfolio or client directed transactions. The SEC order noted that a significant percentage of client accounts enrolled in Wealthfront Advisers' TLH strategy

experienced wash sales in the period from October 2012 to May 2016 and that wash sales represented approximately 2.3% of tax losses harvested for clients in the period from January 2014 to December 2016.

The settlement order found that Wealthfront Advisers violated the antifraud, advertising, compliance, and other provisions of the Investment Advisers Act of 1940. Without admitting or denying the SEC's findings, Wealthfront Advisers consented to the entry of the SEC's order censuring it, requiring it to cease and desist from further violations, and imposing a \$250,000 penalty.

### **Item 10 Other Financial Industry Activities and Affiliations**

Wealthfront Advisers uses its affiliate, Wealthfront Brokerage, to effect transactions on behalf of Wealthfront Advisers' Clients for non-college savings accounts. Wealthfront Brokerage is both a carrying and introducing broker registered with the FINRA and the SEC, whose sole purpose is to service Wealthfront Advisers' Clients and carry accounts that Wealthfront Advisers manages pursuant to discretionary authority granted to Wealthfront Advisers by its Clients. For Accounts other than college savings accounts, Wealthfront Brokerage, as a broker-dealer, has entered into an omnibus clearing agreement with RBC Clearing & Custody ("RBC CC," or "Clearing Broker"). Wealthfront Brokerage instructs the Clearing Broker on behalf of Wealthfront Advisers to clear and settle Wealthfront Advisers Client transactions on an omnibus basis for Client securities orders that Wealthfront Brokerage currently places with either Citadel LLC and Virtu Financial (the "Approved Brokers"). The Clearing Broker also has omnibus custody of Client cash balances and securities positions.

For college savings accounts, Wealthfront Advisers uses Wealthfront Brokerage to effect Plan MFS transactions on behalf of Clients by placing purchase and redemption orders with the Plan recordkeepers and by holding funds pending their investment in Plan MFSs and holding proceeds of redemptions of Plan MFSs pending disbursement per Client instructions.

Wealthfront Brokerage also exclusively offers its Portfolio Line of Credit, a margin loan product, to eligible Wealthfront Advisers' Clients who meet certain minimum account thresholds.

For taxable Client Accounts with a minimum account size of \$100,000, Wealthfront Advisers' investment plan also offers the opportunity to include an allocation to the Wealthfront Risk Parity Fund, a proprietary mutual fund managed by Wealthfront Strategies, a SEC-registered investment adviser and an affiliate of Wealthfront Advisers. Investment in the Wealthfront Risk Parity Fund is subject to an annual 0.25% fee charged by Wealthfront Strategies that covers all management and operational expenses. Clients who have opted-in for a Wealthfront Risk Parity Fund allocation may opt-out from such allocation at any time.

### **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Wealthfront Advisers' paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Wealthfront Advisers puts the interests of its Clients

*ahead of its own*, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Wealthfront Advisers has adopted a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws.

Wealthfront Advisers' Code of Ethics (the "Code") establishes standards of conduct for all Wealthfront Advisers' employees, including all officers, directors, employees, certain contractors and others, and is consistent with the code of ethics requirements of Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code includes general requirements that all employees comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, and confidentiality of client information.

Each new Wealthfront Advisers' employee receives a copy of the Code when hired or engaged by Wealthfront Advisers. Wealthfront Advisers sends copies of any amendments to the Code to all supervised persons, who must acknowledge in writing having received the Code and the amendments. Annually or as otherwise required, each supervised person must confirm to Wealthfront Advisers that they have complied with the Code during such preceding period.

Wealthfront Advisers' employees may personally invest in securities recommended by Wealthfront Advisers, specifically the ETFs recommended for each asset class and individual large and mid-capitalization stocks recommended for advanced forms of TLH. Wealthfront Advisers' employees may also buy or sell specific securities for their own accounts that are not purchased or sold ahead of Clients. Wealthfront Advisers monitors the securities transactions of all employees to determine whether there have been any improper use of client trading information by employees. It also requires all employees to report any violations of the Code promptly to Wealthfront Advisers' Chief Compliance Officer. The complete Code of Ethics is available to any client or prospective Client upon request.

## **Item 12 Brokerage Practices**

Wealthfront Advisers places all trade orders for securities transactions on behalf of Client Accounts solely with Wealthfront Brokerage, with whom Clients must open brokerage accounts if they are to become Wealthfront Advisers investment advisory clients. Wealthfront Brokerage currently has reviewed and approved two different broker-dealer firms to execute orders for all Client taxable and IRA account securities transactions, namely the "Approved Brokers." Wealthfront Brokerage clears and settles all Client taxable and IRA account trade order securities transactions with RBC CC on an omnibus basis, and all costs associated with the clearing and settlement of such securities transactions are borne by Wealthfront Brokerage. Clients also do not pay any securities transaction costs (e.g., commissions or SEC fees) for trades executed through the two Approved Brokers, as Wealthfront Brokerage acts as agent for such trades, and the Approved Brokers execute Client trade orders on a principal or agency basis. Further, Wealthfront Brokerage does not receive any compensation from the Clients, the Approved Brokers or third parties in connection with such transactions.

Wealthfront Advisers seeks to ensure that its Client taxable and IRA accounts receive the best overall execution for securities transactions from the Approved Brokers by continuing to monitor and review the best execution capability of the Approved Brokers. When assessing the best

execution capability of the Approved Brokers, Wealthfront Advisers will consider the following factors: execution speed, price improvement versus the national best bid and offer (NBBO) and overall execution quality among other factors. To the extent that an Approved Broker's best execution capability does not appear to meet the quality of best execution on a consistent basis, Wealthfront Advisers would look to remove and replace such broker from the Approved Broker list.

Wealthfront Advisers does not engage in any "soft dollar" practices involving the receipt of research or other brokerage service in connection with Client transactions, nor does Wealthfront Advisers compensate or otherwise reward any brokers for client referrals. Also, neither Wealthfront Advisers nor Wealthfront Brokerage accept payment for Clients' order flow.

Wealthfront Advisers does not aggregate orders for a Client Account with orders of other Clients. Consequently, seeking fairness to all of its Clients, Wealthfront Advisers submits Client Accounts transactions orders pursuant to a randomized selection process seeking to ensure that each Client Account has generally equal priority over time. By not aggregating transaction orders for a Client's Accounts with orders of other Clients, Clients may receive disparate prices from trading at different times during the day.

Wealthfront Advisers places all 529 college savings account purchase and redemption trade orders with Wealthfront Brokerage, who in turn must transmit such trade orders exclusively to the 529 plan recordkeeper.

### **Item 13 Review of Accounts**

Wealthfront Advisers provides all Clients with continuous access via the Site where Clients can access their Account documents, such as account statements, and review their time-weighted and money-weighted returns. Clients may also receive periodic e-mail communications describing portfolio performance, Account information, and product features.

Wealthfront Advisers' software-based investment advisory service assumes that a portfolio created using MPT-based techniques will not stay optimized over time and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations. Wealthfront Advisers reviews each Client's Account when it is opened and using software, continuously monitors and periodically rebalances each Client's portfolio to seek to maintain a Client's targeted risk tolerance and optimal return for the Client's risk level. Wealthfront Advisers also conducts reviews when Clients make changes to their risk profiles. Wealthfront Advisers may consider tax implications and the volatility associated with each of the chosen asset classes when deciding when and how to rebalance, however no assurance can be made by Wealthfront Advisers that Clients will not incur capital gains, and in certain instances significant capital gains, when Client portfolios are rebalanced periodically. Wealthfront Advisers assumes no responsibility to its Clients for any tax consequences of any transaction, including any capital gains that may result from the rebalancing of Client Accounts.

On a periodic basis, Wealthfront Advisers contacts each Client to remind them to review and update personal profile information they previously provided. Wealthfront Advisers also requests

that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront Advisers support team. Currently the Wealthfront Advisers team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront Advisers periodically reviews the ETFs used for Client portfolios. Wealthfront Advisers' Investment Committee, a committee comprised of Andrew Rachleff and certain other Wealthfront Advisers officers who are not members of Wealthfront Advisers investment research team, approves of these reviews. The committee has the authority, if necessary, to remove, add or replace an ETF from the portfolios advised by Wealthfront Advisers.

#### **Item 14 Client Referrals and Other Compensation**

Wealthfront Advisers expects from time to time to run promotional campaigns to measure interest and to attract Clients to open Accounts on the Site. These promotions may include additional Account services or products offered on a limited basis to select Clients, different fee arrangement structures, which could include more favorable fee arrangements, reduced or waived advisory fees for Clients, and/or periodic, flat fees for certain advisory or account services, including Wealthfront Advisers' Invite Program pursuant to which Clients may invite friends, family and others to open an account with Wealthfront Advisers. Wealthfront Advisers waives its advisory fee on \$5,000 of Account assets for both the referring Client and the referred Client for each referral. Wealthfront Advisers may also invite non-Clients to open an account with Wealthfront Advisers via the Invite Program. For non-Clients who become Clients via direct invitation from Wealthfront Advisers, Wealthfront Advisers will waive its advisory fee on a predetermined amount of the Client's Account assets.

These arrangements may create an incentive for a third party or other existing Client to refer prospective Clients to Wealthfront Advisers, even if the third party would otherwise not make the referral. These arrangements may also create a conflict of interest for a Client to maintain a certain level of assets managed through Wealthfront Advisers if doing so would result in eligibility to receive an incentive, bonus or additional compensation.

Currently, Wealthfront Advisers has certain arrangements in which it pays bloggers and others who post advertisements for Wealthfront a flat fee per client responding to such advertisements who opens an account regardless of whether said client funds the account.

#### **Item 15 Custody**

Wealthfront Advisers is deemed to have custody of Client assets due to its affiliation with Wealthfront Brokerage, which maintains client funds as a qualified custodian and primarily with respect to cash that is not held by RBC CC. Wealthfront Advisers provides instructions to Wealthfront Brokerage regarding the investment of the Client's assets (see Item 10).

Each Client can access Account documentation, including trade confirmations and/or monthly account statements, directly from Wealthfront Brokerage by logging into their Client Account.



Each Client should carefully review this information when they are evaluating Account performance, securities holdings, and transactions. While Wealthfront Advisers reconciles trading information with Wealthfront Brokerage on a regular basis, a Client may experience differences in the information displayed on the Site as compared to the Account documentation due to pending transactions, dividends, corporate actions, cash movements or withdrawals, or other activity. Only Wealthfront Brokerage's trading confirmations and statements represent the official records of a Client's Account.

### **Item 16 Investment Discretion**

Wealthfront Advisers requires that a Client who decides to retain Wealthfront Advisers as their investment adviser must complete and execute an Advisory Client Agreement. Under the terms of the Advisory Client Agreement, Wealthfront Advisers assumes full discretionary trading and investment authority over the Client's assets in accounts held with Wealthfront Brokerage. This means that Wealthfront Advisers is given full discretionary authority to select the timing, size, and identity of securities to buy and sell for the Client as well as enter into, amend or terminate contracts relating to the account. Additional information about the Advisory Client Agreement can be found in Items 4 and 7 above.

A Client should understand that subject only to Wealthfront Advisers' fiduciary duties, Wealthfront Advisers' full discretionary trading and investment authority over the Client's assets held with the Wealthfront Brokerage (and the Client's college savings accounts) means that the timing, size, and identity of securities to buy and sell on behalf of the Client Accounts is completely within Wealthfront Advisers' discretionary authority, and while Wealthfront Advisers seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests and other reasonable Client requests in a timely and reasonable manner, Wealthfront Advisers does not represent or guarantee that Wealthfront Advisers will respond to any such Client actions or requests immediately or in accordance with set time schedule. Further, Wealthfront Advisers is not responsible to Client for any failures, delays and/or interruptions in the timely or proper execution of trades or any other trading instructions placed by Wealthfront Advisers on behalf of Client through Wealthfront Brokerage due to any reason or no reason, including without limitation any or all of the following, which are likely to happen from time to time: (A) any kind of interruption of the services provided by Wealthfront Brokerage or its clearing or executing broker-dealers or Wealthfront Advisers' ability to communicate with Wealthfront Brokerage or its clearing or executing broker-dealers (B) hardware or software malfunction, failure or unavailability; (C) Wealthfront Brokerage system outages; (D) internet service failure or unavailability; (E) the actions of any governmental, judicial or regulatory body; and/or (F) force majeure.

### **Item 17 Voting Client Securities**

Wealthfront Advisers, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the Clients. Our firm maintains policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making

information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Clients may request information regarding how Wealthfront Advisers voted a Client's proxies, and Clients may request a copy of the firm's proxy policies and procedures by emailing [support@wealthfront.com](mailto:support@wealthfront.com). Clients should not become or continue as a Client if they wish to vote such proxies.

### **Item 18 Financial Information**

This Item is not applicable because Wealthfront Advisers does not require or solicit the prepayment of any advisory fees and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.



261 Hamilton Ave.

Palo Alto, California 94301

[www.wealthfront.com](http://www.wealthfront.com)

**Form ADV Part 2B  
Client Brochure Supplement**

**October 26, 2020**

This Brochure Supplement provides information about certain Wealthfront Advisers employees listed below that supplements the Wealthfront Advisers Brochure you should have received above. Please contact Wealthfront Advisers at [844-995-8437](tel:844-995-8437) or [support@wealthfront.com](mailto:support@wealthfront.com) if you did not receive Wealthfront Advisers' Brochure or if you have any questions about the contents of this Brochure Supplement.

Wealthfront Advisers' automated investment advice is managed by software, based on input provided by a team of supervised persons. This team is led by highly-qualified individuals whose experience and credentials are provided below..

**Burton Malkiel, born 1932**

Education

BS, Harvard University, 1953

MBA, Harvard University, 1955

Ph.D., Princeton University, 1964

Business Background

Associate, Investment Banking, Smith Barney & Co. 1958 -1960, 1964 - present

Princeton University (now Professor Emeritus) 2012 - present

Chief Investment Officer, Wealthfront Advisers LLC

2012 - present

Chief Investment Officer, AlphaShares, LLC

Disciplinary Information

None

Other Business Activity

Director: Theravance, Inc.; Genmab A/S; Vanguard Europe

Editorial Board Member, Emerging Markets Review and Applied Financial Economics

Supervision:

Dr. Malkiel is supervised by Andrew Rachleff.

**Alexander Michalka, born 1984**

Education

BA, University of California, Berkeley, 2006

MS / Ph.D., Columbia University, 2013

Business Background

2006 –2009 Quantitative Research, The Climate Corporation

2013 – 2019 Vice President, AQR Capital Management

2019 – present Director of Investments, Wealthfront Advisers LLC

Disciplinary Information

None

Other Business Activity

None

Supervision

Dr. Michalka is supervised by Dr. Vineet Singh



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## **Wealthfront Advisers Program Brochure**

**October 26, 2020**

### **Item 1 Cover Page**

This wrap fee program brochure (“Brochure”) provides information about the qualifications and business practices of Wealthfront Advisers LLC (“Wealthfront Advisers” or “we” or “us”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). Registration does not imply a certain level of skill or training but only indicates that Wealthfront Advisers has registered its business with state and federal regulatory authorities, including the SEC (our SEC number is 801-69766). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact us at [844-995-8437](tel:844-995-8437) or [support@wealthfront.com](mailto:support@wealthfront.com). Additional information about Wealthfront Advisers is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on Wealthfront Advisers’ website, [www.wealthfront.com](http://www.wealthfront.com).

## **Item 2 Material Changes**

Since the last updating amendment to Wealthfront Advisers' Form ADV Part 2 brochure on October 29, 2019, we updated this Brochure to reflect the offering of our Autopilot service.

### **Item 3 Table of Contents**

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## **Item 4 Services, Fees and Compensation**

### **A. General Description of the Company**

Wealthfront Advisers is an automated investment adviser registered with the SEC. Wealthfront Advisers provides you clients with software-based investment advisory and portfolio management services through the Wealthfront Advisers Program. This Program, launched in December 2011, is made available via brokerage accounts that all clients open at Wealthfront Brokerage LLC (“Wealthfront Brokerage”), a member of Financial Industry Regulatory Authority (“FINRA”). Wealthfront Advisers became the successor investment adviser to Wealthfront Inc. effective August 1, 2018. On the same date, Wealthfront Inc. changed its name to Wealthfront Corporation. Software-based financial planning tools and services (as described further in Item 4.B below) are provided by Wealthfront Software LLC (“Wealthfront Software”).

Wealthfront Advisers, Wealthfront Brokerage and Wealthfront Software are wholly owned subsidiaries of Wealthfront Corporation, which is a privately held company headquartered in Palo Alto, CA. Additional information about Wealthfront Advisers’ products, structure and directors is provided on Part 1 of Wealthfront Advisers’ Form ADV which is available online at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or at [www.wealthfront.com](http://www.wealthfront.com). We encourage visiting our website [www.wealthfront.com](http://www.wealthfront.com) for additional information.

### **B. Summary of Investment Advisory Services**

Wealthfront Advisers offers an automated investment advisory service that makes it possible for anyone who enters into a Wealthfront Advisers Advisory Client Agreement (the “Advisory Client Agreement”), to access state-of-the-art investment advisory and portfolio management services. As provided in the Advisory Client Agreement, advisory clients (“Clients”) grant Wealthfront Advisers discretionary authority to manage Client assets in accounts (“Client Accounts” or “Accounts”) opened and maintained at Wealthfront Brokerage (and in the case of the 529 college savings plan, the sponsoring state trust fund account) pursuant to the Wealthfront Brokerage Customer Brokerage and Custody Agreement (the “Brokerage Agreement”). Wealthfront Advisers’ investment objective is to seek maximum long-term, risk-adjusted, after-tax, net of fee returns.

#### **Autopilot**

In addition to investment advisory and portfolio management services, Wealthfront Advisers offers a service called Autopilot to Clients, free of charge. Clients may opt into this service and can stop or restart its use at any time at no cost to them. Autopilot monitors a Client’s checking account or Wealthfront Cash Account for excess cash over the maximum balance set by the Client. If Autopilot detects that the monitored account has exceeded the Client’s prescribed maximum balance by at least \$100, Autopilot will schedule a transfer of the excess cash from the monitored account to the Client’s Wealthfront account of choice. The Client will receive an email notification before each transfer and will have 24 hours to cancel the transfer before it takes place.



## **Financial Planning Service Through Software**

In addition to investment advisory and portfolio management services, Wealthfront Advisers, through its affiliate Wealthfront Software, also provides certain software-based financial planning tools and services (the “Financial Planning Service”) to its Clients. The Financial Planning Service is a product offered by Wealthfront Software and is made available to Wealthfront Advisers’ Clients free of charge through a contractual arrangement between Wealthfront Advisers and Wealthfront Software.

## **Advisory Fees**

Wealthfront Advisers is compensated for its advisory services by charging an annual 0.25% fee on the net market value of a Client’s Account. Wealthfront Advisers reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined solely by Wealthfront Advisers. In addition, Wealthfront Advisers may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients. For Clients who had opened accounts prior to April 1, 2018, Wealthfront Advisers waived its investment advisory fees for the first \$10,000 of assets in any Wealthfront Advisers investment advisory account(s). However, this benefit is no longer available for new Clients who had opened their initial account on or after April 1, 2018.

## **Taxable Accounts and IRAs**

Wealthfront Advisers’ software-based investment advisory service charges a non-negotiable annualized fee of 0.25% on a Client’s assets under management. In some cases, Clients can have a portion of their assets managed for free. Annual fees are charged on a monthly basis as explained below.

Wealthfront Advisers’ fees are not charged in advance and are calculated on a continuous basis and deducted from Clients’ Accounts each month as follows: Wealthfront Advisers calculates a daily advisory fee, which is equal to the fee rate multiplied by the net market value of the Client’s Account as of the close of trading on the New York Stock Exchange (“NYSE”) (herein, “close of markets”) on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). The advisory fee for a calendar month is equal to the total of the daily fees calculated during that month (less any deductions or fee waivers) and is deducted from Client Accounts no later than the tenth business day of the following month.

## **College Savings Accounts**

Wealthfront Advisers also charges an annual 0.25% fee on the net market value of a college savings account for its investment advisory services in connection with the account. Wealthfront Advisers waives its investment advisory fees on the first \$25,000 it manages for Nevada residents who open a college savings account, and this fee waiver applies to the aggregate of all of the Nevada resident’s account assets with Wealthfront Advisers. This waiver will not

terminate on April 1, 2018.

This advisory fee is separate from the fees and expenses of the municipal fund securities (each a “MFS”) in which a Client invests in the Client’s colleges savings account, which include the fees and expenses of the ETFs underlying such securities, the fees of the college savings plan recordkeeper and the fees of the state trust that issues the MFSs (“Plan Administration Fees”). Plan Administration Fees may change without prior notice.

### **Other Account Fees**

In addition to the advisory fees, Clients may also pay other fees or expenses to third parties, as well as to an affiliate of Wealthfront Advisers. The issuer of some of the securities or products we purchase for Clients, such as ETFs, may charge product fees that affect Clients. Wealthfront Advisers does not charge these ETF fees to Clients, nor does it benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client’s portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront Advisers discloses each ETF’s current information, including expenses, on the Site. For those clients that invest in the Wealthfront Risk Parity Fund (the “Risk Parity Fund”), the assets invested in the Risk Parity Fund would also be subject to an additional management / operational expense. The Risk Parity Fund is managed by Wealthfront Strategies, which is an affiliate of Wealthfront Advisers. Additional information regarding the Risk Parity Fund and related expenses can be found on the Site. In addition, Clients who use the Portfolio Line of Credit offered by Wealthfront Brokerage to obtain a loan secured by the assets of their taxable Accounts will be charged interest on the outstanding balance.

## **Item 5 Account Requirements and Types of Clients**

The minimum amount required to open and maintain an account with Wealthfront Advisers is \$500. As a result of the automation associated with offering its services online, Wealthfront Advisers makes it possible for retail investors, as well as retirement accounts and trusts, to access its service with much lower account minimums than normally available in the industry. Clients have access to their Accounts through the Site. Additional requirements for opening an Account with Wealthfront Advisers are described in Item 4 of Wealthfront Advisers’ Form ADV Part 2A brochure, above.

At any time, a Client may terminate an Account, or withdraw all or part of an Account (provided the Account balance does not fall below \$500 because of the withdrawal), or update theirher investment profile, which may initiate an adjustment in the Account’s holdings. In that case, unless otherwise directed by the Client, Wealthfront Advisers will sell the securities in the Client Account (or portion of the Account, in the case of a partial withdrawal or update) at market prices at or around the time of the termination, withdrawal or update. See Item 16 of Wealthfront Advisers’ Form ADV Part 2A brochure for a description of Wealthfront Advisers’ discretionary

investment authority, including the timing of Wealthfront Advisers' placement of Client trade orders. While Wealthfront Advisers seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests, including without limitation requests in connection with terminations, and other reasonable Client requests in a timely and reasonable manner, Wealthfront Advisers does not represent or guarantee that Wealthfront Advisers will respond to any such Client actions or requests immediately or in accordance with set time schedule.

Wealthfront Advisers is probably not the most appropriate service for someone who wants frequent feedback from an advisor. Investors evaluating Wealthfront Advisers' software-based investment advisory service should be aware that Wealthfront Advisers' relationship with Clients is likely to be different from the "traditional" investment advisory relationship in several aspects:

1. Wealthfront Advisers is a software-based investment adviser which means each Client must acknowledge their her ability and willingness to conduct their her relationship with Wealthfront Advisers on an electronic basis. Under the terms of the Advisory Client Agreement and the Brokerage Agreement, each Client agrees to receive all Account information and Account documents (including this Brochure and the Wealthfront Advisers Program Brochure), and any updates or changes to same, through their her access to the Site and Wealthfront Advisers' electronic communications. Unless noted otherwise on the Site or within this Brochure, Wealthfront Advisers' investment advisory service, Wealthfront Brokerage's brokerage services, the signature for the Advisory Client Agreement and the Brokerage Agreement, and all documentation related to the advisory services are managed electronically. Wealthfront Advisers does make individual representatives available to discuss servicing matters with Clients.
2. To provide its investment advisory services and tailor its investment decisions to each Client's specific needs, Wealthfront Advisers collects information from each Client, including specific information about theirher investing profile such as financial situation, investment experience, and investment objectives. Wealthfront Advisers maintains this information in strict confidence subject to its Privacy Policy, which is provided on the Site. When customizing its investment solutions, Wealthfront Advisers relies upon the information received from a Client. Although Wealthfront Advisers contacts its Clients periodically as described further in Item 13 below, a Client must promptly notify Wealthfront Advisers of any change in theirher financial situation or investment objectives that might require a review or revision of theirher portfolio.
3. The software-based investment advisory service includes preselected ETFs for each asset class within the plan recommended to a Client. Wealthfront Advisers does not allow Clients to select their own ETFs because each ETF and asset class is considered to be part of the overall investment plan. However, Wealthfront Advisers does allow Clients to restrict Wealthfront Advisers from investing in the stock of a public company that employs the Client. For taxable Client Accounts with a minimum account size of \$100,000, the Risk Parity Fund would also be included in the plan recommended to a Client, but a Client may choose not to invest in the Risk Parity Fund.

4. Clients may not place orders to purchase or sell securities on a self-directed basis.

## **Item 6 Portfolio Manager Selection and Evaluation**

### **A. Modern Portfolio Theory (“MPT”)**

For its software-based investment advisory and portfolio management services, Wealthfront Advisers provides Clients with investment advice that is based on MPT. MPT attempts to maximize a portfolio’s expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset classes rather than selecting individual securities. Historically, rigorous MPT-based financial advice has been available primarily through certain high-end financial advisors. Wealthfront Advisers’ goal is to enable anyone with at least \$500 to access the benefits of MPT.

Prior to the launch of the Wealthfront Advisers software-based investment advisory service, it was not practical to offer rigorous and complete MPT to everyone because delivering a complete solution was too complex. Specifically, the number of calculations required to identify an optimized asset allocation, the ideal securities to represent each asset class, and an individual’s true risk tolerance are beyond the scope of free, web-based tools. The job becomes even more difficult when considering the importance of periodically rebalancing a portfolio to maintain a desired risk level.

To employ MPT properly, one must start with an accurate determination of an individual’s objective and subjective tolerance for risk. Achieving accuracy requires sophisticated software applied to more detailed questions than are typically asked by advisers. Based on this risk analysis, Wealthfront Advisers seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client’s specific risk tolerance. Wealthfront Advisers uses Mean Variance Optimization to rigorously evaluate every possible combination of the following twelve asset classes: US equities, foreign developed markets equities, emerging markets equities, dividend growth equities, real estate, natural resources, treasury inflation protected securities (TIPS), municipal bonds, corporate bonds, emerging markets bonds, risk parity and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for any given standard deviation of a portfolio’s returns. Wealthfront Advisers however, must limit the number of assets classes for very small portfolios. Further, the risk parity asset class is only available to taxable Client AccountClient accounts with a minimum account size of \$100,000.

Wealthfront Advisers periodically reviews the entire population of more than 1,000 ETFs to identify the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a

Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time. Finally, we select ETFs that have conservative and shareholder-friendly securities lending policies.

In addition to choosing what we believe to be the best ETFs at the time, we explain why we chose each one. We provide a detailed analysis of how the selected ETF stacked up against the second and third best choice for each asset class on the dimensions described in the paragraph above.

Wealthfront Advisers continuously monitors our Clients' portfolios and periodically rebalances them back to the Clients' target mix in an effort to optimize returns for the intended level of risk. Wealthfront Advisers may consider tax implications and the volatility associated with each of the chosen asset classes when deciding when and how to rebalance, however no assurance can be made by Wealthfront Advisers that Clients will not incur capital gains, and in certain instances significant capital gains, when Client portfolios are rebalanced periodically. Wealthfront Advisers assumes no responsibility to its Clients for any tax consequences of any transaction, including any capital gains that may result from the rebalancing of Client AccountClient accounts.

## **B. Tax-Loss Harvesting ("TLH")**

TLH is a technique designed to help lower your taxes while maintaining the expected risk and return profile of your portfolio. It harvests previously unrecognized investment losses to offset taxes due on your other gains and income by selling a security at loss to accelerate the realization of capital loss and investing the proceeds in a security with closely correlated risk and return characteristics. The realized loss can be applied to lower your tax liability and the tax savings can be reinvested to grow the value of your portfolio. Wealthfront Advisers' basic TLH strategy, which is solely applied to ETFs, is available for all Clients. Advanced versions of TLH are available for Clients with larger account sizes and are generally applied to individual stocks that comprise the domestic equity allocation in their taxable account portfolios.

## **C. Long Term, Buy and Hold Investment Philosophy**

Wealthfront Advisers adheres to a long-term, "buy-and-hold" investment philosophy. While Wealthfront Advisers reserves the right to act otherwise if it feels that it is in the best interests of its Clients, Wealthfront Advisers does not try to time the market and in general, Wealthfront Advisers intentionally does not react to market movements in managing Client Accounts other than through rebalancing and tax-loss harvesting. Wealthfront Advisers believes that numerous academic and industry studies show that *"short term fluctuations in market, which loom so large to investors, have little to do with the long-term accumulation of wealth."* J. Siegel, Stocks for the Long Run (1977).

## **D. Risk Considerations**

Wealthfront Advisers cannot guarantee any level of performance or that any Client will avoid a

loss of Account assets. **Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.**

When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining Wealthfront Advisers' services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

**Market Risk** – The price of any security or the value of an entire asset class can decline for a variety of reasons outside of Wealthfront Advisers' control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. If a Client has a high allocation in a particular asset class, it may negatively affect overall performance to the extent that the asset class underperforms relative to other market assets. Conversely, a low allocation to a particular asset class that outperforms other asset classes in a particular period will cause that Client Account to underperform relative to the overall market.

**Advisory Risk** – There is no guarantee that Wealthfront Advisers' judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results. It is possible that Clients or Wealthfront Advisers itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Wealthfront Advisers' software-based investment advisory service. Wealthfront Advisers and its representatives are not responsible to any Client for losses unless caused by Wealthfront Advisers' breach of its fiduciary duty.

**Software Risk** – Wealthfront Advisers delivers its investment advisory services entirely through software. Consequently, Wealthfront Advisers rigorously designs, develops and tests its software extensively before putting such software into production with actual Client Accounts and assets and periodically monitors the behaviors of such software after its deployment. Notwithstanding this rigorous design, development, testing and monitoring, it is possible that such software may not always perform exactly as intended or as disclosed on the Site, mobile app, blogs or other Wealthfront Advisers disclosure documents, especially in certain combinations of unusual circumstances. For example, there may be occasions where a number of Client Accounts may not experience TLH (even if TLH had been activated for such accounts) or rebalancing back to the Client's target asset allocation for extended periods of time, due to certain errors in the deployment of the software. Wealthfront Advisers continuously strives to monitor, detect and correct any software that does not perform as expected or as disclosed.

**Volatility and Correlation Risk** – Wealthfront Advisers' Security selection process is based in part on a careful evaluation of past price performance and volatility to evaluate future probabilities. It is possible that different or unrelated asset classes may exhibit similar price changes in similar directions which may adversely affect a Client's account and may become

more acute in times of market upheaval or high volatility. **Past performance is no guarantee of future results, and any historical returns, expected returns, or probability projections may not reflect actual future performance.**

**Liquidity and Valuation Risk** – High volatility and/or the lack of deep and active liquid markets for a security may prevent a Client from selling their securities at all, or at an advantageous time or price because Wealthfront Advisers' executing broker-dealer may have difficulty finding a buyer and may be forced to sell at a significant discount to market value. Some securities (including ETFs) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage their portfolios. While Wealthfront Advisers values the securities held in Client Accounts based on reasonably available exchange traded security data, Wealthfront Advisers may from time to time receive or use inaccurate data, which could adversely affect security valuations, transaction size for purchases or sales, and/or the resulting advisory fees paid by a Client to Wealthfront Advisers.

**Credit Risk** – Wealthfront Advisers cannot control, and Clients are exposed to the risk that, financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any broker-dealer, notwithstanding asset segregation and insurance requirements that are beneficial to broker-dealer clients generally. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of Client securities. Finally, any issuer of securities may experience a credit event that could impair or erase the value of the issuer's securities held by a Client. Wealthfront Advisers seeks to limit credit risk by generally adhering to the purchase of ETFs, which are subject to regulatory limits on asset segregation and leverage such that fund shareholders are given liquidation priority versus the fund issuer; however, certain funds and products, which Wealthfront Advisers generally does not invest in, may involve higher issuer credit risk because they are not structured as a registered fund.

**Legislative and Tax Risk** - Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment adviser / financial advisor or securities trading regulation; change in the U.S. government's guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization and/or tax reporting obligations (particularly for ETF securities dealing in natural resources). Wealthfront Advisers does not engage in tax planning, and in certain circumstances a Client may incur taxable income on their investments without a cash distribution to pay the tax due.

**Tax-Loss Harvesting Risk** - Clients who activate our tax-loss harvesting service are alerted to the following risks:

- **Clients should confer with their personal tax advisor regarding the tax consequences of investing with Wealthfront Advisers and engaging in the tax-loss harvesting strategy, based on their particular circumstances.** Clients and their

personal tax advisors are responsible for how the transactions in the Client's account are reported to the Internal Revenue Service ("IRS") or any other taxing authority. Wealthfront Advisers assumes no responsibility to you for the tax consequences of any transaction, including any capital gains and/or wash sales that may result from the tax-loss harvesting strategy.

- Wealthfront Advisers' tax-loss harvesting strategy is not intended as tax advice, and Wealthfront Advisers does not represent in any manner that the tax consequences described will be obtained or that Wealthfront Advisers' investment strategy will result in any particular tax consequence. The tax consequences of this strategy and other Wealthfront Advisers strategies are complex and may be subject to challenge by the IRS. This strategy was not developed to be used by, and it cannot be used by, any investor to avoid penalties or interest.
- When Wealthfront Advisers replaces investments with "similar" investments as part of the tax-loss harvesting strategy, it is a reference to investments that are expected, but are not guaranteed, to perform similarly and that might lower a Client's tax bill while maintaining a similar expected risk and return on the Client's portfolio. **Expected returns and risk characteristics are no guarantee of actual performance.**
- A Client must notify Wealthfront Advisers of specific stocks in which the Client is prohibited from investing. If a Client instructs Wealthfront Advisers not to purchase certain stocks, Wealthfront Advisers will select an alternate stock to purchase on the Client's behalf or if Wealthfront Advisers deems no other stock as appropriate, not invest in an alternate stock. The Client shall notify Wealthfront Advisers immediately if you consider any investments recommended or made for the Account to violate such restrictions.
- The performance of the new securities purchased through the tax-loss harvesting service may be better or worse than the performance of the securities that are sold for tax-loss harvesting purposes.
- The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the Client will depend on the Client's entire tax and investment profile, including purchases and dispositions in a Client's (or Client's spouse's) accounts outside of Wealthfront Advisers and type of investments (e.g., taxable or nontaxable) or holding period (e.g., short-term or long-term). The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws, e.g., if there are insufficient realized gains in the tax period, the use of harvested losses may be limited to a \$3,000 deduction against ordinary income and distributions. Losses harvested through the strategy that are not utilized in the tax period when recognized (e.g., because of insufficient capital gains and/or significant capital loss carryforwards), generally may be carried forward to offset future capital gains, if any.



- Be aware that if the Client and/or the Client's spouse have other taxable or non-taxable investment accounts, and the Client holds in those accounts any of the securities (including options contracts) held in the Client's account at Wealthfront Advisers, the Client cannot trade any of those securities 30 days before or after Wealthfront Advisers trades those same securities as part of the tax-loss harvesting strategy to avoid possible wash sales and, as a result, a nullification of any tax benefits of the strategy. For more information on the wash sale rule, please read [IRS Publication 550](#).
- Wealthfront Advisers' tax-loss harvesting service is designed to avoid creating "wash sales" in Clients' accounts with Wealthfront Advisers. Clients, however, are responsible for monitoring their accounts outside of Wealthfront Advisers to ensure that transactions in the same security or a substantially similar security do not create a wash sale. A wash sale occurs when a taxpayer sells a security at a loss and then purchases the same security or a substantially similar security over a period of 61 days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. If a wash sale occurs, the IRS may disallow or defer the loss for current tax reporting purposes. Wash sales can occur even if the securities are sold and then bought in different accounts. Therefore Wealthfront Advisers may lack visibility to certain wash sales, should they occur as a result of transactions in external or unlinked accounts. Under those circumstances, Wealthfront Advisers may not be able to provide notice of such wash sale in advance of the Client's receipt of the IRS Form 1099.
- Except as set forth below, Wealthfront Advisers will monitor only a Client's accounts at Wealthfront Advisers to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside of accounts at Wealthfront Advisers may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the Client in the most efficient manner.
- Under certain limited circumstances, there is a chance that Wealthfront Advisers trading attributed to tax-loss harvesting may create capital gains and/or wash sales. In addition, tax-loss harvesting strategies may produce losses, which may not be offset by sufficient gains in the account.
- In order to avoid wash sales due to one or more transactions in the Client's taxable or IRA Accounts, from time-to-time, a Client's IRA Account might invest in a so-called "secondary" ETF (as identified in Wealthfront Advisers' TLH white paper) rather than a so-called "primary" ETF identified in such white paper or in the Client's plan.
- Not all the losses may be used to offset gains in the year they were recognized due to wash sales. Thus, wash sales can diminish the effectiveness of tax-loss harvesting by deferring to a future year a tax loss that could have been used to offset income or capital gains in the current year.

**Potentially High Levels of Trading Risk** - Certain situations, such as the simultaneous receipt of a high volume of Client deposits or withdrawal requests, can lead Wealthfront Advisers to

engage in high levels of trading. High levels of trading could result in (a) bid--ask spread expense; (b) trade executions that may occur at prices beyond the bid--ask spread (if quantity demanded exceeds quantity available at the bid or ask); (c) trading that may adversely move prices, such that subsequent transactions occur at worse prices; (d) trading that may disqualify some dividends from qualified dividend treatment; unfulfilled orders or portfolio drift, in the event that markets are disorderly or trading halts altogether; and (f) unforeseen trading errors.

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**ETF Risks, including Net Asset Valuations and Tracking Error** - ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

Clients should be aware that to the extent they invest in ETF securities they will pay two levels of advisory compensation – advisory fees charged by Wealthfront Advisers plus any management fees charged by the issuer of the ETF. This scenario may cause a higher advisory cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of the fund may include ETF management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront Advisers discloses each ETF's current information, including expenses, on the Site. ETF tracking error and expenses may vary.

**Inflation, Currency, and Interest Rate Risks** - Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor's future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of the U.S. dollar-denominated assets primarily managed by Wealthfront Advisers may be affected by the risk that currency devaluations affect Client purchasing power.

**College Savings Account Risks** - College Savings Accounts are subject to various risks, including but not limited to:

*Special Nature of Plan Interests* - The Client and the Client's beneficiary do not have access or rights to any assets of the state sponsoring our 529 Plan or any assets of the state trust of the Section 529 college savings plan (a "Plan") other than the assets credited to the Client's account for that beneficiary. The college savings account is an investment vehicle. College savings accounts are subject to certain risks including: (i) the possibility that the Client may lose money over short or even long periods of time; (ii) the risk of changes in applicable federal and state tax laws and regulations; (iii) the risk of Plan changes including changes in fees and expenses; and (iv) the risk that contributions to the college savings account may adversely affect the eligibility of the beneficiary or the Client for financial aid or other benefits. Some MFSs in a Client's college savings account carry more and/or different risks than others. Clients should weigh such risks with the understanding that they could arise at any time during the life of the Client's account.

*Municipal Fund Securities* - When the Client contributes to the college savings account, the Client's money will be invested in MFSs. An investment in the Client's college savings account is not a bank deposit. None of the Client's account, the principal the Client invests, nor any investment return is insured or guaranteed by (i) any state or any state agencies, instrumentalities or funds, (ii) any officer, official, staff member of any state, (iii) any Plan or any program manager of any such Plan, (iv) any board of any state trust issuing MFSs for a Plan (a "Board"), (v) any such state trust (as "State Trust"), (vi) Wealthfront Advisers, (vii) each of their respective affiliates, officials, officers, directors, employees and representatives, (viii) the federal government, (ix) the Federal Deposit Insurance Corporation ("FDIC"), or (x) any other governmental agency. Investment returns will vary depending upon the performance of the designated portfolios in the Client's account. A Client could lose all or a portion of the Client's investment.\

*Relatively Short Investment Time Horizon* - Relative to investing for retirement, the holding period for college savings investors is very short (e.g., 10 years versus 60 years). Also, the need for liquidity during the withdrawal phase (to pay for qualified higher education expenses) generally is very important. Clients should strongly consider the level of risk they wish to assume when completing the risk questionnaire upon account opening.

*Limited Investment Direction* - Clients may not direct the underlying investments in their college savings account. The ongoing money management is the responsibility of Wealthfront Advisers. The only manner in which Clients can affect the money management is to change their risk score, which is limited to two times per year, or upon the change of the beneficiary. Once the permitted two per calendar year risk score changes are made in the Client's account, a subsequent risk score change in the Client's account within the same calendar year will not be processed. The choice of the underlying investments of the MFSs is subject to the approval of the Board. Automatic investment exchanges that occur as the Client's assets move through the glide path do not count towards the Client's twice per calendar year investment exchange limit.

*Liquidity Risk* - Investments in a Plan are considered less liquid than other types of investments (e.g., investments in mutual fund shares) because the circumstances in which a Client may withdraw money from a Plan account without a penalty or adverse tax consequences are significantly more limited.

*Potential Changes to the Plan* – Boards generally reserve the right, in their sole discretion, to discontinue the Plan or to change any aspect of the Plan. For example, the Board may change the Plan's fees and expenses; add, subtract, or merge the MFSs; close a MFS to new investors; or change the program manager or the underlying investment(s) of a MFS. Depending on the nature of the change, a Client may be required to, or prohibited from, participating in the change with respect to accounts established before the change. A particular program manager may not necessarily continue as the Plan's program manager, and Wealthfront Advisers may not necessarily continue as investment adviser and distributor to a Plan (although Wealthfront Advisers will continue as the Client's investment adviser until either Wealthfront Advisers or the Client terminates that investment advisory relationship).

Changes to a Plan may or may not be beneficial to Clients. The Board may terminate the Plan by giving written notice to the Client, but even if the Board terminates the Plan, the Client and the Client's beneficiary's rights to the Client's account assets will be unaffected. An MFS may be temporarily uninvested during a transition from one investment underlying an MFS to another underlying investment. The transaction costs associated with any liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the MFS which ultimately may impact the individual portfolios holding that MFS.

*Status of Federal and State Law and Regulations Governing a Plan* - Federal and state law and regulations governing the administration of Plans could change in the future. In addition, federal and state laws on related matters, such as the funding of higher education expenses, treatment of financial aid, and tax matters are subject to frequent change. It is unknown what effect these kinds of changes could have on a college savings account. Clients should also consider the potential impact of any other state laws on their account. Clients should consult their tax advisor for more information.

*Eligibility for Financial Aid* - The treatment of college savings account assets may have an adverse effect on the beneficiary's eligibility to receive assistance under various federal, state, and institutional financial aid programs.

*No Guarantee That Investments Will Cover Qualified Higher Education Expenses; Inflation and Qualified Higher Education Expenses* - There is no guarantee that the money in a Client's college savings account will be sufficient to cover all of a beneficiary's qualified higher education expenses, even if contributions are made in the maximum allowable amount for the beneficiary. The future rate of increase in qualified higher education expenses is uncertain and could exceed the rate of investment return earned by a Plan account over any relevant period of time.

Investors in any Plan should read the Plan's offering documents and any related participation agreement carefully before investing or sending money.

**Portfolio Line of Credit** - Qualified clients who choose to use Wealthfront Brokerage's Portfolio Line of Credit are alerted to the following risks:

- Portfolio Line of Credit is a margin loan product offered by Wealthfront Brokerage exclusively to Clients of Wealthfront Advisers with taxable account balances in excess of \$25,000. Clients should review the risks listed below and in Wealthfront Brokerage's [Margin Handbook](#), and consider them before borrowing. For the purposes of this document, Client Accounts utilizing the Portfolio Line of Credit may be referred to as "margin accounts."
- Clients who utilize margin loans can lose more funds than deposited in their margin accounts. In addition, a decline in the value of the securities in margin accounts may require such Clients to provide Wealthfront Brokerage with additional funds to avoid the forced sale of securities or other securities or assets in their margin accounts. This is called a "margin call."
- Wealthfront Brokerage can issue a margin call and force the sale of securities in Client margin accounts if the equity in a Client margin account falls below the minimum requirement described in our [Margin Handbook](#). Wealthfront Brokerage can sell the securities in any of the Client's margin accounts held with Wealthfront Brokerage to cover the margin deficiency. Clients also will be responsible for any shortfall in the margin account after such a sale.
- Wealthfront Brokerage notifies Clients whose portfolio balances approach our minimum margin requirement well before a margin call is likely to happen even though such notice is not strictly required. Unless such Clients pay back their loan or a portion of it, Wealthfront Brokerage can sell Client securities in margin accounts without further contacting the Client if the margin account falls below our minimum margin requirement. Even if Wealthfront Brokerage has contacted a Client and provided a specific date by which the Client can meet a margin call, Wealthfront Brokerage can still take necessary steps to protect its financial interests, including immediately selling the

securities without notice to the Client.

- In the event it is necessary to sell securities to meet minimum margin requirements, Wealthfront Advisers will automatically liquidate securities to cover the minimum margin requirements while also maintaining appropriate asset allocations in the Client's portfolio. Clients are not entitled to choose which securities in their account(s) are liquidated or sold to meet a margin call.
- Wealthfront Brokerage can increase its minimum margin requirements at any time and is not required to provide advance written notice to Clients. These changes in Wealthfront Brokerage's policy often take effect immediately and may result in the issuance of a maintenance margin call. A Client failure to satisfy the call may cause Wealthfront Brokerage to liquidate or sell securities in Client margin accounts.
- Clients are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to a Client under certain conditions, a Client does not have a right to the extension.

#### **Item 7 Client Information Provided to Portfolio Managers**

On a periodic basis, Wealthfront Advisers contacts each Client to remind them to review and update the investment profile information they previously provided. Wealthfront Advisers also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront Advisers support team. Currently the Wealthfront Advisers team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront Advisers conducts separate reviews related to the ETFs used for Client portfolios. A committee comprised of Andrew Rachleff and certain other Wealthfront Advisers officers who are not members of the Wealthfront Advisers investment research team approves these reviews. The committee has the authority, if necessary, to remove, add or replace an ETF from the portfolios advised by Wealthfront Advisers.

#### **Item 8 Client Contact with Portfolio Managers**

All client contacts and communications regarding participation in the Wealthfront Advisers Program will occur through contact with Wealthfront Advisers via email, the Site or the App. If Client changes Client's investment profile information, Wealthfront Advisers will promptly make any appropriate changes to Client's Account portfolio. See Item 16 in Wealthfront Advisers' Form ADV Part 2A brochure for a description of Wealthfront Advisers' discretionary investment authority, including the timing of Wealthfront Advisers' placement of trade orders, for while Wealthfront Advisers seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests, including without limitation requests in connection with terminations, and other reasonable Client requests in a timely and reasonable manner, Wealthfront Advisers does not represent or guarantee that Wealthfront Advisers will respond to

any such Client actions or requests immediately or in accordance with set time schedule.

## **Item 9 Additional Information**

### **A. Disciplinary Information**

On December 21, 2018, Wealthfront Advisers reached a settlement with the Securities and Exchange Commission. The settlement order found that Wealthfront Advisers improperly retweeted certain clients' positive tweets from its corporate account and had made compensation to some bloggers for client referrals without proper disclosures. Additionally, the settlement order found that Wealthfront Advisers did not have proper disclosures in its TLH whitepaper concerning monitoring for any and all wash sales that could occur in client accounts. A wash sale prevents the tax benefit of having sold the asset to realize a loss. Thus, a wash sale can diminish the effectiveness of TLH by deferring to a future year a tax loss that could have been used to offset income or capital gains in the current year. In Wealthfront's TLH program, wash sales could occur, or were permitted, in certain circumstances relating to the management of a client account such as rebalancing a client portfolio or client directed transactions. The SEC order noted that a significant percentage of client accounts enrolled in Wealthfront Advisers' TLH strategy experienced wash sales in the period from October 2012 to May 2016 and that wash sales represented approximately 2.3% of tax losses harvested for clients in the period from January 2014 to December 2016.

The settlement order found that Wealthfront Advisers violated the antifraud, advertising, compliance, and other provisions of the Investment Advisers Act of 1940. Without admitting or denying the SEC's findings, Wealthfront Advisers consented to the entry of the SEC's order censuring it, requiring it to cease and desist from further violations, and imposing a \$250,000 penalty.

### **B. Other Financial Industry Activities and Affiliations**

Wealthfront Advisers utilizes its affiliate, Wealthfront Brokerage, to effect transactions on behalf of Wealthfront Advisers' Clients for non-college savings accounts. Wealthfront Brokerage is both a carrying and introducing broker registered with FINRA and the SEC, whose sole purpose is to service Wealthfront Advisers' Clients. Wealthfront Brokerage, as a broker-dealer, has entered into an omnibus clearing agreement with RBC Capital Markets, LLC ("RBC CC," or "Clearing Broker"). Wealthfront Brokerage instructs the Clearing Broker on behalf of Wealthfront Advisers to clear and settle Wealthfront Advisers Client transactions on an omnibus basis for Client securities orders that Wealthfront Brokerage currently places with either Citadel LLC and Virtu Financial.

Wealthfront Brokerage also exclusively offers its Portfolio Line of Credit, a margin loan product, to eligible Wealthfront Advisers' Clients who meet certain minimum account thresholds.

For taxable Client Accounts with a minimum account size of \$100,000, Wealthfront Advisers' investment plan also offers the opportunity to include an allocation to the Wealthfront Risk Parity Fund, a proprietary mutual fund managed by Wealthfront Strategies, a SEC-registered

investment adviser and an affiliate of Wealthfront Advisers. Investment in the Wealthfront Risk Parity Fund is subject to an annual 0.25% fee charged by Wealthfront Strategies that covers all management and operational expenses. Clients who have opted-in for a Wealthfront Risk Parity Fund allocation may opt-out from such allocation at any time.

### **C. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Wealthfront Advisers' paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Wealthfront Advisers puts the interests of its Clients *ahead of its own*, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Wealthfront Advisers has adopted a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws.

Wealthfront Advisers' Code of Ethics (the "Code") establishes standards of conduct for all Wealthfront Advisers' employees, including all officers, directors, employees, certain contractors and others, and is consistent with the code of ethics requirements of Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code includes general requirements that all employees comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, and confidentiality of client information.

Each new Wealthfront Advisers' employee receives a copy of the Code when hired or engaged by Wealthfront Advisers. Wealthfront Advisers sends copies of any amendments to the Code to all supervised persons, who must acknowledge in writing having received the Code and the amendments. Annually or as otherwise required, each supervised person must confirm to Wealthfront Advisers that they have complied with the Code during such preceding period.

Wealthfront Advisers' employees may personally invest in securities recommended by Wealthfront Advisers, specifically the ETFs recommended for each asset class and individual large and mid-capitalization stocks recommended for advanced forms of TLH. Wealthfront Advisers' employees may also buy or sell specific securities for their own accounts that are not purchased or sold ahead of Clients. Wealthfront Advisers monitors the securities transactions of all employees to determine whether there have been any improper use of client trading information by employees. It also requires all employees to report any violations of the Code promptly to Wealthfront Advisers' Chief Compliance Officer. The complete Code of Ethics is available to any client or prospective Client upon request.

### **D. Review of Accounts**

Wealthfront Advisers provides all Clients with continuous access via the Site where Clients can access their Account documents, such as account statements, and review their time-weighted and money-weighted returns. Clients may also receive periodic e-mail communications describing portfolio performance, Account information, and product features.



Wealthfront Advisers' software-based investment advisory service assumes that a portfolio created using MPT-based techniques will not stay optimized over time and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations. Wealthfront Advisers reviews each Client's Account when it is opened and using software, continuously monitors and periodically rebalances each Client's portfolio to seek to maintain a Client's targeted risk tolerance and optimal return for the Client's risk level. Wealthfront Advisers also conducts reviews when Clients make changes to their risk profiles. Wealthfront Advisers may consider tax implications and the volatility associated with each of the chosen asset classes when deciding when and how to rebalance, however no assurance can be made by Wealthfront Advisers that Clients will not incur capital gains, and in certain instances significant capital gains, when Client portfolios are rebalanced periodically. Wealthfront Advisers assumes no responsibility to its Clients for any tax consequences of any transaction, including any capital gains that may result from the rebalancing of Client AccountClient accounts.

On a periodic basis, Wealthfront Advisers contacts each Client to remind them to review and update personal profile information they previously provided. Wealthfront Advisers also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront Advisers support team. Currently the Wealthfront Advisers team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront Advisers periodically reviews the ETFs used for Client portfolios. Wealthfront Advisers' Investment Committee, a committee comprised of Andrew Rachleff and certain other Wealthfront Advisers officers who are not members of Wealthfront Advisers investment research team, approves of these reviews. The committee has the authority, if necessary, to remove, add or replace an ETF from the portfolios advised by Wealthfront Advisers.

#### **E. Client Referrals and Other Compensation**

Wealthfront Advisers expects from time to time to run promotional campaigns to measure interest and to attract Clients to open Accounts on the Site. These promotions may include additional Account services or products offered on a limited basis to select Clients, different fee arrangement structures, which could include more favorable fee arrangements, reduced or waived advisory fees for Clients, and/or periodic, flat fees for certain advisory or account services, including Wealthfront Advisers' Invite Program pursuant to which Clients may invite friends, family and others to open an account with Wealthfront Advisers. Wealthfront Advisers waives its advisory fee on \$5,000 of Account assets for both the referring Client and the referred Client for each referral. Wealthfront Advisers may also invite non-Clients to open an account with Wealthfront Advisers via the Invite Program. For non-Clients who become Clients via direct invitation from Wealthfront Advisers, Wealthfront Advisers will waive its advisory fee on a predetermined amount of the Client's Account assets.

These arrangements may create an incentive for a third party or other existing Client to refer

prospective Clients to Wealthfront Advisers, even if the third party would otherwise not make the referral. These arrangements may also create a conflict of interest for a Client to maintain a certain level of assets managed through Wealthfront Advisers if doing so would result in eligibility to receive an incentive, bonus or additional compensation.

Currently, Wealthfront Advisers has certain arrangements in which it pays bloggers and others who post advertisements for Wealthfront a flat fee per client responding to such advertisements who opens an account regardless of whether said client funds the account.

#### **F. Financial Information**

Wealthfront Advisers does not require or solicit the prepayment of any advisory fees and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.